

INSURANCE INSIGHTS  
**GDPR: THE DOOR  
TO THE FUTURE?**

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On May 25, 2018, we cross the long-awaited threshold of the General Data Protection Regulation (GDPR) as new legislation comes into force across Europe. The door to the new regulatory era is finally open, with revised laws to protect EU citizens' data privacy, and where consumers are empowered to take ownership and control of how their personal data is used and shared. For organizations, this will be a radical shake-up across the region of how they approach data privacy – with sizeable financial and reputational consequences. But outside of compliance, other forces are at play.

Until now, GDPR discussions have largely focused on compliance requirements. Being a risk-conscious sector, most large insurers and wider financial services firms have been diligently carrying out GDPR readiness programs, ensuring that all the compliance “boxes” have been firmly ticked. For some, GDPR is just a hugely expensive compliance exercise. Yet, treating GDPR as merely a governance issue would not only miss potentially significant strategic opportunities but also pose a threat, should someone else get there better and faster. Oliver Wyman believes that smart companies will leverage this opportunity to open the door to a future where new and disruptive business models can address and solve complex consumer challenges, and provide enhanced value to customers.

## LEVELED PLAYING FIELD

GDPR gives the ownership and control of data usage back to customers. Therefore, large companies that today capture and use consumer data can no longer claim this data as their own asset. Crucially, at a customer's request, organizations need to allow data to be transferred to any third party. This will no doubt lead to a dramatic leveling of the playing field between incumbents and new entrants. Until now, the gap in “data assets” and the insights these generate has been a barrier to entry for all large insurers. Post-GDPR, large incumbents will no longer have a monopoly on consumer data, and will need to defend their market positions with different competitive advantages. On the other hand, this is great news to new entrants, especially to ambitious and nimble InsurTech startups, for whom in the past data was difficult and expensive to acquire. The innovative business models of the future will no doubt combine profound data insights with seamless user experience, smart recommendation and advisory capabilities empowered by artificial intelligence (AI), and other value-added services.

Take the example of policy renewals. For many years, insurers have relied on lengthy quotation forms and clunky comparison processes to deter customers from taking their business elsewhere. Hence, in today's time-poor world, many customers have stayed with their existing insurer out of sheer convenience. This accounts for the bulk of insurers' total profit and reinforces the profit signature cycle of up-front losses compensated for by large renewal profits. We've seen attempts from home insurance firms to change this, but for motor and most of other personal and commercial insurance the process is still very time-consuming and often frustrating. But what if filling in cumbersome questionnaires could be circumvented with one click? Post-GDPR, one significant game changer will be the “one-click-quote,” so long as customers give their consent to porting their data from

elsewhere. This easy lifting of personal data from an existing supplier poses the major threat of increased attrition levels, and massive profit erosion.

## TRUST AND REWARD

With data no longer being “walled in” by incumbents, organizations will need to apply fresh thinking to how they differentiate themselves and thus seize a competitive advantage. For increasingly discerning customers, smooth customer experience will be regarded as merely the base line.

Two notable additional factors will be on the minds of insurance customers of the future.

### 1. “IS MY DATA SAFE?”

2018 will be the year synonymous not only with GDPR but also with a dramatic turning point in the public’s perception of the safety of their data. High-profile data breaches, increased fraud, questionable social media usage, and headlines claiming wide-scale political manipulation have raised the notion of data safety in the public’s collective conscience.

Oliver Wyman’s Britain’s Digital DNA survey established that the biggest fear consumers have about the digital world is the loss of privacy. Over half of the consumers surveyed were worried about sharing personal information online. In future, consumers will be demanding greater transparency in data usage; GDPR makes it mandatory for companies to provide that. Since it’s difficult for consumers to understand the technical details and data practices that a company employs, a trustworthy brand as well as the resources to “right the wrong” when necessary is key to being perceived as a likely guardian for consumers’ data and privacy.

Another important survey insight is that among the top three categories of businesses that consumers tend to trust with their data, two are insurers: health insurers, and motor and home insurers. Combining a trustworthy name with convincing proof of data and privacy protection practice could give well-established incumbents a competitive advantage over the newer entry players, which are only establishing their reputations.

### 2. “AM I GETTING VALUE FROM SHARING MY DATA?”

Given the explicit consents required to use and share consumer data, consumers will increasingly realize that their data holds a lot of worth. Thus, they will be looking to get more value from sharing their data, be it exceptional service and experiences, personalized products and offers, or discounted products and services. These incentives will become the new currency in exchange for keeping or passing on personal information. In the long run, consumers are more likely to get closer to the “fair value” for their data given the increased competition on a leveling playing field.

The above points reinforce the need for insurance business leaders to adopt a customer-centric strategy that focuses on value, from both a trust and a commercial perspective. Here we list some of the likely compelling value propositions of new business designs and the “score board” of incumbents and new entrants based on their fundamental business “DNA”.

### Exhibit 1: Value propositions

VALUE PROPOSITION	INCUMBENTS	NEW PLAYERS	COMMENTS
You know how we use your data and have control	++	+	• While both have to ensure that under GDPR, consumers are likely to perceive incumbents to be more capable/trustworthy
We protect your data and privacy	++	+	
Innovative and differentiated offers leveraging data to solve real issues		+	• Challengers tend to be more willing to disrupt existing models because they have less to lose
A trusted, well-established brand	+		• It will take time for the new entrants to build their brand
We are flexible to suit your unique needs		+	• Burdened by large complex legacy systems and culture, it's harder for incumbents to be nimble and flexible
Hassle-free consumer experience		+	• New entrants are more likely to take a consumer-centric view and put consumer experience at the core of their offering
We are a low-price challenger		+	• Given the operational set up, already decreasing margins and a back-loaded profit signature, it's challenging for incumbents to be much more aggressive with pricing
We provide an open ecosystem and enable you to link various service/product providers		+	• With legacy systems being closed and inflexible, many incumbents find it difficult to adopt an open ecosystem approach

## NO-REGRET MOVES FOR INCUMBENTS

Strategically speaking, it appears that GDPR brings more threats than opportunities for incumbents by leveling the playing field. Indeed, some of the incumbents’ DNAs might not set themselves up well for leveraging those opportunities.

However, in the ever-changing and increasingly dynamic insurance ecosystem, the boundary between incumbents and start-ups is quite fluid and there are some enduring benefits to incumbency. Incumbents typically have amassed a large customer base over time and built a trustworthy brand. Many have established a deep understanding of consumer behavior and needs. The key question is whether they become aware of the strategic implications and decide to move out of their comfort zone, adopting a nimble and agile approach in developing business models. Incumbents will also need a major rethink in their assets, capabilities, capital, and talent.

Incumbents may choose to play defensively. This includes strengthening their brand and consumer trust, improving customer experience, or offering new services and features based on existing data. Conversely, they can play offensively, by incubating new business models in-house or acquiring InsurTech companies with new ideas.

Whether offensive or defensive, we see several “no-regret moves” for large incumbents as the GDPR door opens.

## 1. STRATEGIC MAPPING

Incumbents should ask themselves “What will I want to be known for in the next five years, or even 10 years?” Another good question could be “What will it take to win in the future?” They should analyze where the industry is heading on a macro level and align their strategy with a future-focused value chain. While this is critical with or without GDPR, the impending regulation provided a good trigger for companies to embark on this journey – even if they haven’t yet started.

## 2. DATA ASSET EVALUATION

By the time GDPR comes into play, most organizations will have undertaken thorough data auditing to ensure compliance. However, incumbents shouldn’t stop there. Future success may depend on how well they understand which data assets they require when building the business of the future. Likewise, they will need to comprehend how to protect those data assets they already possess (so that consumers don’t ask for their data to be erased), and obtain those that they don’t yet have.

## 3. AGILITY

The life cycle for new business models has shortened from 50-100 years at the turn of the 20th century to 10-20 years towards the end of the 20th century. It is accelerating at an even more rapid pace in our current era. The old approach of spending years and devoting an army of people to build a “perfect” model does not work anymore. Agile development, software development and operations (DevOps) environments, cloud-based technology, and customer centricity will be essential ingredients to craft new business models.

## 4. COMMERCIAL EXCELLENCE

This might seem counterintuitive but, given the margins already competed away, an incumbent successful in reinventing its business model requires potentially significant investment. The ability to optimize the existing business to generate cash and headroom to fund the new business is crucial for most incumbents.

## A FINAL WORD

Insurance is a complex business and, from May 25 onwards, the industry will experience considerable transformation. In the short term, it might feel like not much has changed, as it will take consumers time to understand their rights and the value of their data. Inertia will make this process gradual rather than overnight. For those who choose to not look ahead and content themselves with simply complying with GDPR, however, the risks of being left behind are very real. It is likely that they will eventually be sidelined by bold contenders – incumbents and new entrants alike – which are willing enough to embrace change and are ready to build exactly the type of business they want. Opportunity is knocking at the door – we are curious to see who's answering.

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